The Corporation of the Town of Halton Hills

Audit Planning Report for the year ending December 31, 2023

KPMG LLP

Prepared as of January 22, 2024

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

Carlos Alvarez
Audit Engagement Partner
905-523-2238
carlosalvarez@kpmg.ca

Matthew Ciardelli
Audit Senior Manager
905-972-2111
mciardelli@kpmg.ca

Chris Wiegert
In-Charge Senior Accountant
905-972-2127
cwiegert@kpmg.ca

KPMG

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The purpose of this report is to assist you, as a member of Council, in your review of the plan for our audit of the financial statements. This report is intended solely for the information and use of Management and Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to Council has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

This Audit Planning Report is also available as a "hyper-linked" PDF document.

If you are reading in electronic form (e.g. In "Adobe Reader" or "Board Books"), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Scope

Our audit of the consolidated financial statements (“financial statements”) of The Corporation of the Town of Halton Hills (“the Entity”) as of and for the period ended December 31, 2023 will be performed in accordance with Canadian generally accepted auditing standards.

Audit strategy

Materiality $3.1M

Involvement of others

Updates to our prior year audit plan

- Audit of the impact of implementation of PS 3280 – Asset Retirement Obligations, including required disclosures

Audit strategy - group audit

- Refer to slide 8 for the scope of Entities which are subject to audit (we note no changes from prior period).

Involvement of other KPMG member firms

Involvement of non-KPMG firms

Risk assessment

Risk of management override of controls

Other significant risks

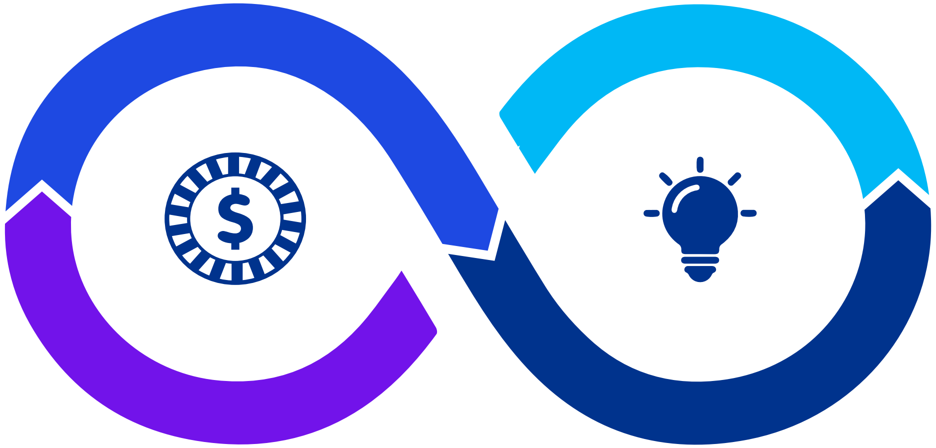
Presumed risk of fraudulent revenue recognition

Other risks of material misstatement

Areas of audit focus:

- Implementation of PS 3280 – Asset Retirement Obligations
- Implementation of PS 3450 – Financial Instruments
- Revenue recognition
- Tangible capital assets
- Operating expenditures including payroll
- Investment in Halton Hills Community Energy Corporation

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement***, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also ***use materiality*** to evaluate the effect of:

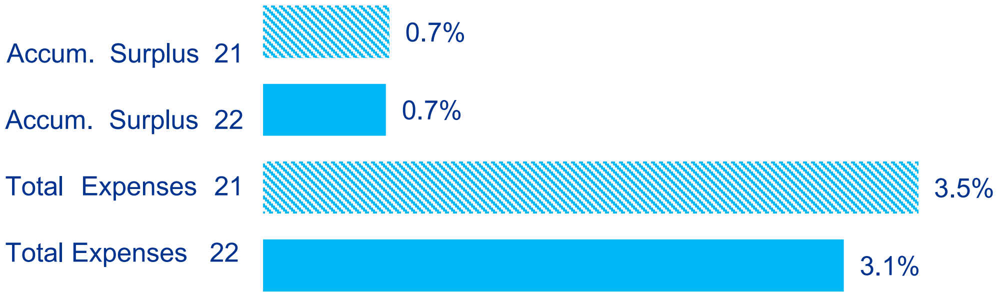
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Initial materiality

Materiality

$3.1M

% of Benchmark



% of Other Relevant Metrics

Chosen Benchmark: Total Revenue

2022 - $104,289,294

(2021: $95,324,246)

Comparative Benchmark: Total Expenses

2022 - $92,547,736

(2021: $82,067,768)

Comparative Benchmark: Accum. Surplus

2022 - $434,575,695

(2021: 422,834,137)

The audit misstatement posting threshold (AMPT) is initially set at $155,000 (2022 - $131,000). We will profile all audit misstatements that exceed this threshold in our Audit Findings Report.

Updates to our prior year audit plan

New significant risks

New Significant Risks

No new significant risks have been identified in the current year.

Other significant changes

Newly Effective Accounting Standards

Newly effective accounting standards

For the year-ended December 31, 2023, the Town will be required to implement PS 3280 – Asset Retirement Obligations. This replaces the previous standard which oversaw the accounting treatment of obligations expected to be settled at a future date, which was much smaller in scope than the new standards. Accordingly, this will be an area of audit focus.

The new standard requires Public Sector entities to estimate the expected future settlement and remediation costs of all fixed assets owned by the Entity. Common examples of costs that fall within scope are the removal of asbestos and other hazardous materials, and removal of leasehold improvements based on the terms of the underlying agreements.

There are multiple options with respect to the method of adoption, some of which involve restatement of prior period comparatives, and accompanying disclosures. See slide 11 for further details.

Similarly, the Town will also be required to implement PS 3450 –Financial Instruments. This standard change will impact the method which financial instruments, including contracts with embedded derivatives and investments, are recorded (IE. cost vs. fair value). As a result, there may be remeasurement gains or losses on adoption.

Newly Effective Auditing Standards

Effective for periods beginning on or after December 15, 2022
- ISA/CAS 220 – (Revised) Quality management for an audit of financial statements
- ISQM1/CSQM1 – Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements
- ISQM2/CSQM2 – Engagement quality reviews

Effective for periods beginning on or after December 15, 2023
- ISA 600/CAS 600 – Revised special considerations – Audits of group financial statements

See Appendix E for further details.

Group audit - Scoping

Breakdown by audit participants

Entity Name	Change in Scope?	Full-Scope Standalone Audit?
The Corporation of the Town of Halton Hills	Consistent with Prior Period	Yes
Halton Hills Community Energy Corporation	Consistent with Prior Period	Yes
Halton Hills Public Library	Consistent with Prior Period	Yes
Acton BIA	Consistent with Prior Period	Yes
Georgetown BIA	Consistent with Prior Period	Yes

Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the Town and its environment (e.g. the industry, the wider economic environment in which the business operates, etc.), our understanding of the Town's components of its system of internal control, including our business process understanding.

		Risk of fraud	Risk of error	PY risk rating
●	Management Override of Controls	✓		Significant
●	Implementation of PS 3280 – Asset Retirement Obligations & PS 3450 – Financial Instruments		✓	Elevated
●	Revenue Recognition		✓	Base
●	Tangible Capital Assets		✓	Base
●	Operating Expenditures including Payroll		✓	Base
●	Investment in Halton Hills Community Energy Corporation		✓	Base

● SIGNIFICANT RISK ● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER RISK OF MATERIAL MISTATEMENT

Advanced technologies

Our **KPMG Clara Dynamic Risk Assessment** tool gives us a more sophisticated, forward-looking and multi-dimensional approach to assessing audit risk.

Learn more

Our **KPMG Clara Business Process Mining** provides immediate visualization of how 100% of your transactions are processed to complement your process narratives & flow charts.

Learn more

KPMG Clara Account Analysis allows us to analyze the flow of transactions through your business to drive a more meaningful risk assessment.

Learn more

KPMG Clara AI allows us to layer AI into our auditing platform, allowing us to scan 100% of your data and pull all of the risky transactions and anomalies out for further analysis.

Learn more

Significant risks

Management Override of Controls (non-rebuttable significant risk of material misstatement)

RISK OF
FRAUD

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our planned response

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

Advanced technologies

Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Click to learn more

New Risk Areas for Fiscal 2023

Implementation of PS 3280 – Asset Retirement Obligations & PS 3450 Financial Instruments

RISK OF ERROR

Risk Description	Estimate?	New or changed?
As required for all entities within the Public Sector, these new accounting standards must be implemented for the Town's fiscal 2023 year-end. PS 3280 in particular is a significant standard change and requires the combined efforts of management and project managers and staff from the capital assets team.	Yes	New

The implementation involves compiling a complete list of all fixed assets owned or leased by the Town, and identifying possible future liabilities related to their retirement. These future costs must then be estimated and reflected at present value, giving rise to an asset retirement obligation on the statement of financial position. The scope of this standard increases on the previous Contaminated Sites Liabilities guidance, which was focused only on contamination and not the wider range of end-of-life costs applicable to the asset portfolio.

The new requirements of PS 3450 will impact the way financial instruments such as investments or contracts with embedded derivatives are recorded (i.e. cost or fair value) and will involve management's assessment for each relevant item owned by the Town. There may be remeasurement gains or losses upon adoption of the new standard.

Relevant inherent risk factors affecting our risk assessment

As these are new standards, there is risk of error on its implementation in the initial year. Based on the method of adoption chosen by the Town, there may be additional risk with respect to required financial statement presentation and disclosure. We have initially selected the inherent risk to be elevated as opposed to base for these reasons.

Our audit approach

KPMG will perform substantive testing to ensure the list of fixed assets and financial instruments used for the estimates are complete. We will inquire with management and determine if the process and methodology are appropriate based on the objectives and requirements of the new standards. We will perform benchmarking and analysis of key inputs and audit the mathematical integrity of the calculations. We will review the financial statement presentation and disclosure of the adjustments required to implement the standards.

Advanced technologies

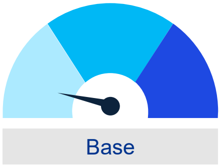
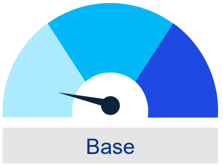
Our **KPMG Clara DataSnipper** is an automated vouching tool uses advanced Optical Character Recognition to automatically vouch unstructured data like invoices and contracts with a click of a button! This tool will be used throughout the audit allowing our teams to focus more attention on areas of higher risk.

Click to learn more

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Revenue recognition - Government grants, users charges and fees and related deferrals (including obligatory)	 Base	Funding from other levels of government represents a material balance and may be subject to requirements which must be met before revenue can be recognized. Revenue from developer charges also represents a material balance each year and is subject to natural fluctuation based on market factors. There is risk of error based on the timing of cash receipt vs. the performance of development, which occurs over time. We will substantively test both areas of revenue via analytical procedures, statistical sampling and agreeing to third party evidence.
Tangible capital assets	 Base	Regardless of the new Asset Retirement Obligation standard, tangible capital assets will always represent an area of audit focus for a municipality. We will ensure that material additions meet the requirements for capitalization and that they are accurately presented by testing a sample of additions, and transfers from work-in-progress assets. We will recalculate amortization expenses and ensure assets are being amortized appropriately over time based on the Town's policies.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Operating expenditures including payroll		We will substantively test the completeness, accuracy and occurrence of a statistical sample of operating expenditures, vouching to third party invoice or equivalent. We will perform substantive analytical procedures over salaries and benefits, supported by attribute tests to ensure inputs for employee wage rates within the payroll system are appropriate. We will ensure a sample of employees exist by vouching to HR records.
Investment in Halton Hills Community Energy Corporation		As required by the Ontario Energy Board, an audit is completed over Halton Hills Hydro Inc. ("HHHI"), for which Carlos Alvarez is also the Lead Audit Engagement Partner. We complete an audit of HHHI as well as Halton Hills Community Energy Corporation ("HHCEC") including any additional subsidiaries. For purposes of the Town's audit, we rely on the audit performed at the component level for reporting in the Town's consolidated financial statements. We will maintain regular contact with the HHCEC engagement team. We will ensure appropriate disclosures are made within the Town's consolidated financial statements.

Key milestones and deliverables

November 2023
Planning & Risk Assessment

- Debrief prior year with management
- Kick-off with management
- Planning and initial risk assessment procedures, including:
    - Involvement of others
    - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Town and its environment
- Inquire of management and others within the Town about risks of material misstatement

December 2023
Risk assessment & Interim work

- Evaluate the Entity's components of internal control, other than the control activities component
- Perform process walkthroughs for certain business processes
- Identify process risk points for certain business processes
- Complete interim data extraction and processing activities
- Perform interim substantive audit procedures
- Complete initial risk assessment
- Communicate audit plan
- Identify IT applications and environments

Apr - May 2024
Final Fieldwork & Reporting

- Complete year-end data extraction and processing activities
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Present audit results and perform required communications
- Issue audit report on financial statements
- Closing meeting with management
- Filing date: Issue audit reports on financial statements

Independence: Request for pre-approval of services

We are submitting the following service(s) for pre-approval by Council.

The services are not prohibited, and threats to our independence, if any, resulting from the provision of the services will be eliminated or reduced to an acceptable level. Further details on the services and the assessment of the potential effects on our independence are included on the slides that follow.

Audit services
Separate annual financial statement audits of the following, for the year-ended December 31, 2023: - The Corporation of the Town of Halton Hills - Halton Hills Public Library Board - Acton BIA - Georgetown BIA

Audit adjustments and misstatements require additional documentation and in certain instances additional audit procedures. Time incurred in relation to such matters including additional requested services and reports will be billed at discounted hourly rates. Such matters to be discussed and agreed to with management as they arise.

Appendices

- A — Engagement letter
- B — Other required communications
- C — Use of technology
- D — Audit quality
- E — New auditing standards
- F — Insights
- G — Continuous evolution
- H — ESG Reporting
- I — ESG Discovery
- J — Generative AI

Appendix A: Engagement Letter

The annual engagement letter has been provided to management and is available upon request.

Appendix B: Other required communications

CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results

Appendix C: KPMG Clara

Streamlined client experience

And deeper insights into your business, translating to a better audit experience.

Secure

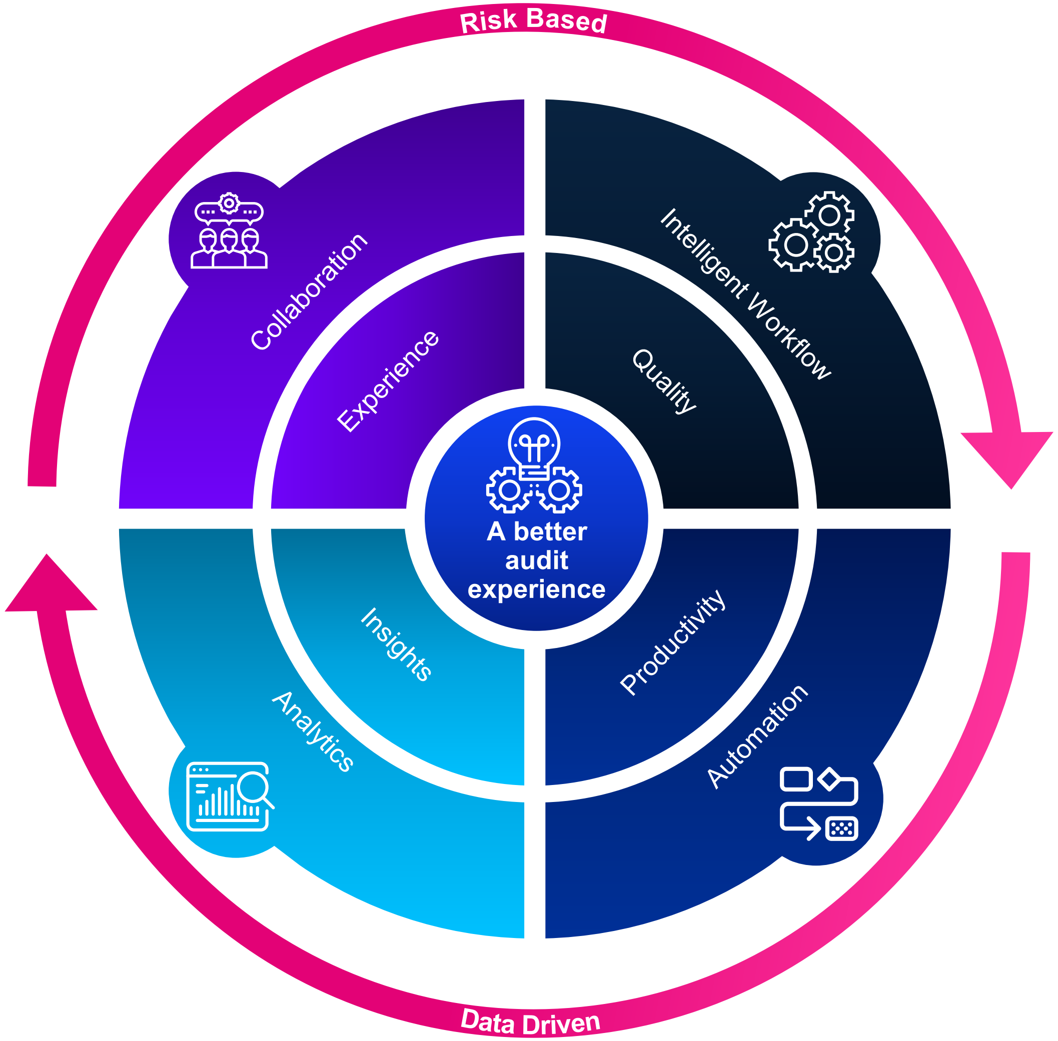
A secure client portal provides centralized, efficient coordination with your audit team.

Intelligent workflow

An intelligent workflow guides audit teams through the audit.

Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.



Appendix D: Audit quality: How do we deliver audit quality?

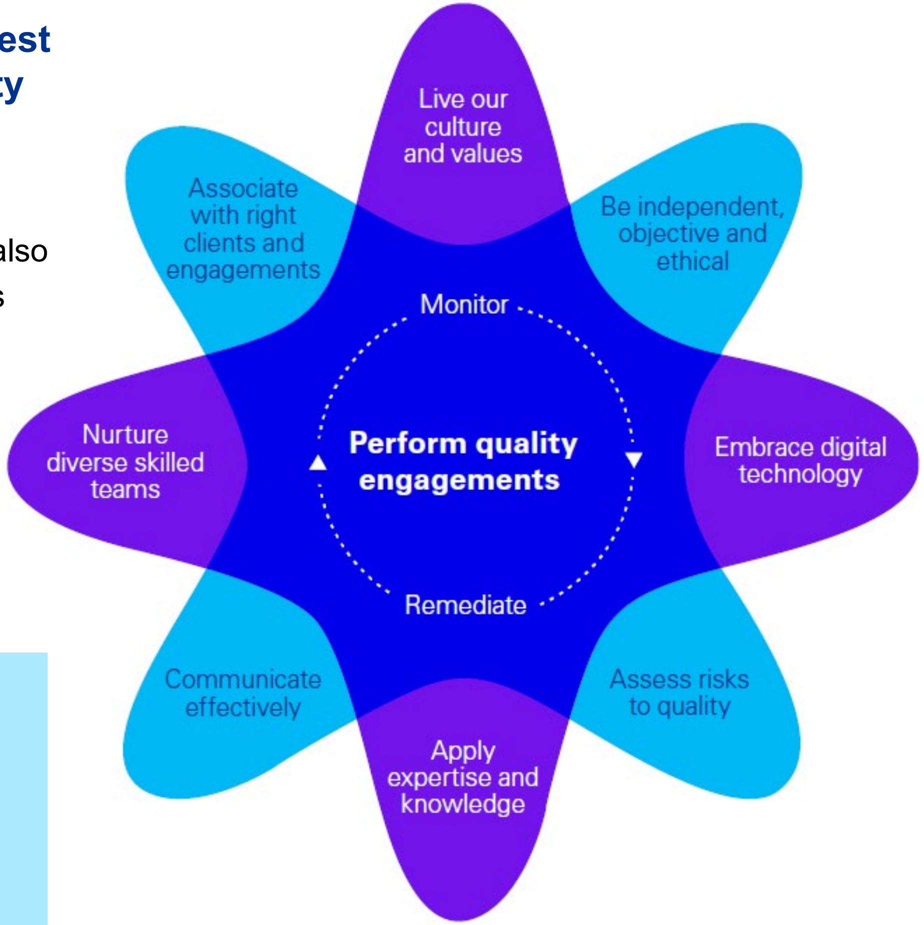
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements.

KPMG 2022 Audit Quality and Transparency Report

We define 'audit quality' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality management;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**



Doing the right thing. Always.

Appendix E: Newly effective and upcoming changes to auditing standards

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Appendix F: Insights to enhance your business

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

Lean in Audit

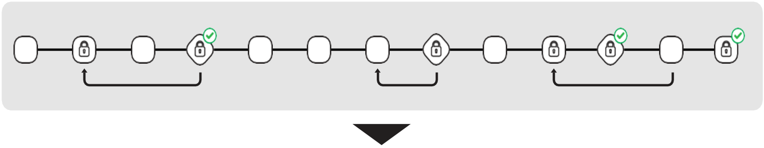
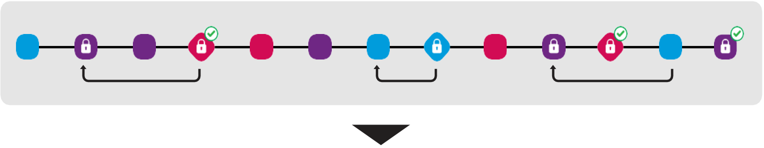
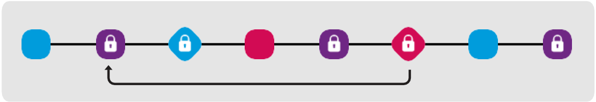
Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to working with you to incorporate this approach in your audit.

How it works

Standard Audit	Typical process and how it's audited	
Lean in Audit™	Applying a Lean lens to perform walkthroughs and improve Audit quality while identifying opportunities to minimize risks and redundant steps	
How Lean in Audit helps improve businesses processes	Make the process more streamlined and efficient for all	

Value: what customers want **(maximize)**

Necessary: required activities **(minimize)**

Redundant: non-essential activities **(remove)**

Process controls

Key controls tested

Appendix F: Audit and assurance insights

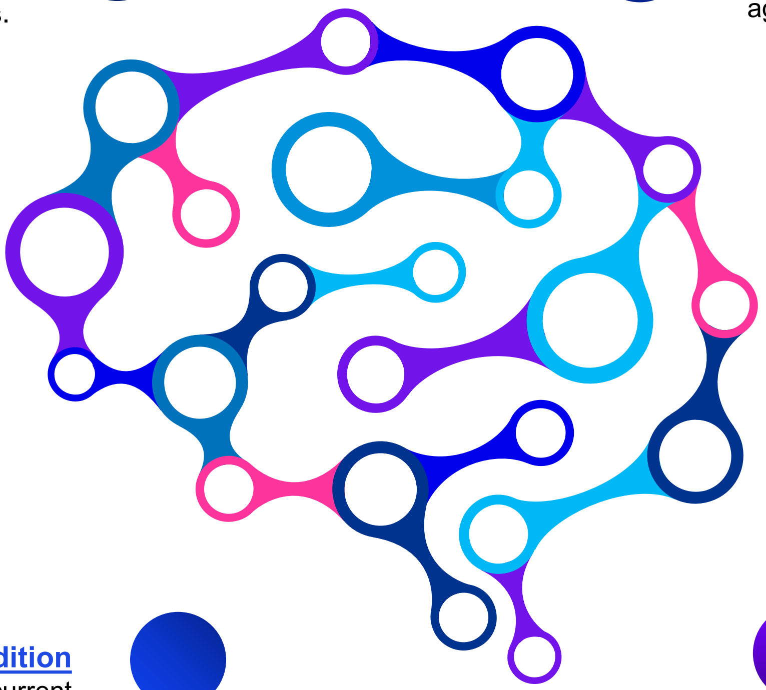
Our latest thinking on the issues that matter most to Audit Committees, board of directors, Councils and management., including resources on ESG maturity and readiness assessments.

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.



Accelerate 2023
The key issues driving the audit committee agenda in 2023.

Momentum
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News
A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

Appendix G: Continuous evolution

Our investment: $5B

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.

Appendix H: ESG Reporting

Why audit committees should steer ESG reporting

Being unprepared could expose companies to reputational and financial risks

By Dave Power

The clock is ticking. Environmental, social and governance (ESG) reporting is moving from voluntary to required. The first mandatory ESG reporting will be required for some Canadian companies as soon as 2025. But few organizations are prepared for this new regime and the third-party assurance expected to come with it. To be ready, companies must formulate a detailed plan, make organizational changes and commit resources.

Mandatory public reporting of non-financial metrics will expose companies to new risks. Misleading or incorrect reporting can cause reputational damage in the eyes of key stakeholders, reduce access to capital and lead to a decline in the company's share price. Companies may need to disclose competitive information, such as resource use, that they may not have previously disclosed to investors, and overall business strategy could be affected by shareholder pressure to improve certain metrics. At the same time, the integration of ESG strategy into the broader corporate strategy and its effects on financial metrics will be more visible and open to more stakeholder scrutiny.

Given these implications, companies must develop a robust management and governance system for ESG with board-level oversight. This system may well be delegated to the audit committee at most companies because it is the board body that has the most experience with assurance, oversight of data and controls, and reviewing reports that will be made public. In addition, the company's financial auditor may be engaged to provide third-party assurance over ESG reporting and the finance department will probably–and should–be heavily involved because its competencies most closely align with those needed to prepare this new reporting.

> Preparing for mandatory ESG reporting is a massive project and companies that haven't meaningfully started the journey are behind. Leadership will need to come from boards and audit committees must ensure management has a comprehensive path to completion to take the company's ESG reporting from where it is today to where it soon needs to be.

Dave Power
Partner,
GTA ESG Assurance Leader
KPMG in Canada

Many organizations will require formal ESG reporting, as opposed to voluntary or none at all

In KPMG's *Road to Readiness: KPMG ESG Assurance Maturity Index 2023*, two-thirds (66 percent) of all respondents and 78 percent of those from listed companies say their firms "must now report ESG data or will be required to soon [1]."Until now, most of this reporting has been voluntary, but in the coming years, public companies and other public interest entities will need to disclose specific ESG information under one or more disclosure frameworks.

In June 2023, the International Sustainability Standards Board (ISSB) issued its first sustainability disclosure standards, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures*, designed to be adopted globally on a jurisdictional basis [2].In Canada, the Canadian Sustainability Standards Board (CSSB) has been formed to support the adoption of the standards. In the interim, some companies may choose to adopt them voluntarily and report on IFRS S1 and S2 beginning fiscal years starting on or after January 1, 2024. These disclosure standards have also been endorsed by the International Organization of Securities Commissions (IOSCO), which has encouraged its 130 member jurisdictions to look at incorporating them. IOSCO represents 95 percent of the world's security markets, so adopting the standards into regulation will likely be widespread [3].

As of fiscal periods ending on or after October 1, 2024, certain federally regulated financial institutions in Canada must make climate-related financial disclosures per *Guideline B-15: Climate Risk Management*, published by the Office of the Superintendent of Financial Institutions (OSFI). And in Europe, the first companies subject to the *Corporate Sustainability Reporting Directive (CSRD)* must start reporting according to European Sustainability Reporting Standards (ESRS) for periods beginning on or after January 1, 2024 [4].

The Canadian Securities Administrators (CSA) is working with the CSSB as it looks to adopt the ISSB standards. It's still undertaking consultations and has not announced an effective date for new disclosure requirements for publicly listed entities in Canada, but we anticipate they'll become effective in the next couple of years. In the U.S., companies must prepare for the requirements that will come soon after the Securities and Exchange Commission (SEC) makes its final announcement on its climate-related reporting rules. Audit committees will want to ensure that management has a process for tracking the regulatory environment and knows which regulations apply to the company.

The "S" in ESG is driving new reporting requirements as well. The *Fighting Against Forced Labour and Child Labour in Supply Chains Act* will require some Canadian companies and government institutions to submit a publicly available report to the Minister of Public Safety every year on the steps taken in the previous financial year "to prevent and reduce the risk that forced labour or child labour is used at any step of the production of goods in Canada or elsewhere by the entity or of goods imported into Canada by the entity" [5]. The first report will be due May 31, 2024, and failure to report can result in fines, investigations and liability for directors. Audit committees must be sure management is aware of whether their organization is in scope for this reporting and, if so, what steps they're taking to provide complete and accurate information by the deadline.

Companies need to map out a path to completion

Despite the prevalence of forthcoming ESG reporting mandates, few organizations are ready to transition to formal reporting. Only 27 percent of companies surveyed by KPMG report that they "have robust policies and procedures to support

[1] "Road to readiness: KPMG ESG Assurance Maturity Index 2023," KPMG International, 2023

[2] "Canadian Securities Administrators statement on proposed climate-related disclosure requirements," Calgary and Toronto, July 5, 2023

[3] "IOSCO endorses the ISSB's Sustainability-related Financial Disclosures Standards," Madrid, July 25, 2023

[4] "Guideline B-15 Climate Risk Management." Office of the Superintendent of Financial Institutions (website) accessed Oct 10, 2023

the development of their ESG disclosures" and only a quarter (25 percent) feel they have the "policies, skills and systems in place to be ready for ESG assurance" [6].Given the impending deadlines for mandatory reporting, audit committees must ensure management is putting the required policies and systems in place and recruiting or upskilling employees to ensure the company has the talent and knowledge required to meet these requirements.

Almost all organizations will need to bolster their ESG reporting to align with these new regulatory requirements, and the transition complexity should not be underestimated. It will require significant resources, time and cross-disciplinary cooperation across the organization. Even companies that currently report ESG metrics voluntarily will need to make substantial changes as the final regulations will require companies to report on metrics they may not currently report, use a methodology that differs from what they use today, or both. Companies operating in multiple jurisdictions may also find that reporting prepared for one jurisdiction is insufficient or non-compliant for another.

Audit committees must ensure that management has a clear path to completion to bring their reporting to the standard required for the formal reporting and assurance requirements for which they are in scope. This plan must be feasible given the organization's available resources and the importance of other initiatives. It begins with a clear understanding of where the company is today and where it needs to be to report under the new standards. Plans must be developed to close gaps and address resource needs.

A particular area of challenge for companies, and one of the areas where audit committees can focus, is the processes and controls management has in place–or intends to put in place–to ensure that information reported is complete, accurate and assurable. These processes and controls should be as robust as those for financial information and their design and implementation should involve people with appropriate skills and knowledge in these areas. Given their core competencies in these areas, this supports our expectation that the financial reporting and internal audit teams will play key roles in ESG reporting.

Of key importance are management's capabilities today versus those that are needed to achieve a successful transition to ESG reporting readiness and assurance. The audit committee can play a critical role in understanding current capability, what is needed, and where additional support is needed through upskilling current staff or engaging internal or external experts, including at the board level.

Reporting will be integrated

While financial statement and ESG disclosure standards remain separate, we're likely headed toward an integrated report containing financial and non-financial information. Some organizations already have this type of reporting, although only pieces of it may be subject to external assurance.

In many firms, ESG strategy and reporting are siloed from the broader strategy and other types of reporting. However, cross-functional cooperation will be necessary as we move closer to integrated reporting. A holistic approach to reporting must start at the board level and trickle down to management and the broader organization. The audit committee has the breadth of perspective required to ensure the organization moves toward a structure where ESG and sustainability are integrated into all aspects of the organization.

[5] "S.C. 2023, c. 9, Fighting Against Forced Labour and Child Labour in Supply Chains Act"
[6] "Road to readiness: KPMG ESG Assurance Maturity Index 2023," KPMG International, 2023

The company's financial auditor should provide ESG assurance

With mandatory ESG reporting on the horizon, investors are demanding third-party validation of those metrics and related information. Providing assurance is the core competency of financial statement auditors, leaving them best positioned to provide assurance on non-financial information. The standards are being written using many of the principles of financial statement reporting standards, in which financial statement auditors are well versed.

Beyond core knowledge, using a company's financial statement auditor brings additional benefits and efficiencies. Dealing with one firm will impose a lower administrative burden than dealing with multiple firms and spare companies the potential complications of dealing with two divergent opinions and having to provide the same information twice. The financial auditor is already familiar with the company, its processes and control systems, and therefore are best positioned to help companies identify disconnects or risks between financial and non-financial information and disclosures.

Today is the time to start preparing for mandatory ESG reporting

Companies need to begin transitioning to formal ESG reporting now. It's a complex task and opens them up to new risks. The skillsets and knowledge of audit committees will allow them to provide valuable guidance throughout this process.

Questions audit committees should be asking:

- Where is the company in terms of our preparedness for formal ESG reporting?
- How are we, as an audit committee, preparing to review and understand what's being reported, disclosed and assured?
- What is management's roadmap to be ready to make formal public ESG disclosures?
- Is the company, management and the board appropriately structured to provide governance for this reporting?
- How are we incorporating ESG strategy into the broader corporate strategy?

Contact us

Dave Power
Partner, GTA ESG Assurance Leader
KPMG in Canada
416-777-8021
davepower@kpmg.ca

Appendix I: ESG Discovery

KPMG Private Enterprise

Is your ESG performance driving real value?

Understand how to unlock new value for your business through KPMG's ESG Discovery session

66% of Canadian small and medium-sized enterprise (SME) leaders surveyed have set environmental and social goals to be included in their business plans. But only 17% are taking formal steps towards sustainability.[1]

Why is ESG performance a priority for my business?

Stakeholders are increasingly putting pressure on companies to manage their Environmental, Social and Governance (ESG) risks and opportunities, and disclose their ESG performance in alignment with global standards. Business leaders more readily embedding ESG factors into their business will be better positioned to meet new regulatory requirements and unlock value.

- **Increased sales:** Proactively addressing and implementing ESG principles ahead of competitors to boost productivity, innovation and market placement
- **Decreased operational costs:** Lowered costs through sustainable suppliers and other financial arrangements
- **Increased consumer loyalty and talent retention:** Improved reputation and engagement from customers, employees and investors
- **Enhanced access to capital:** Gained from government grants, tax incentives, loans, bonds, and other capital sources – often at more favourable terms

Considerations for your leadership team

- Have your stakeholders expressed their expectations regarding ESG issues?
- Have you identified which ESG issues are material to your organization today? In one year? In five years?
- Where do you have blind spots?
- Where can you proactively mitigate future concerns?
- Do you know from where to access funding to make investments in your ESG performance?
- How are you communicating your ESG integration efforts to investors and other stakeholders? align with new regulations?

How to start: ESG Discovery sessions

KPMG in Canada has developed ***ESG Discovery sessions*** to help SME clients explore and hone on their ESG challenges and opportunities to unlock long-term value for their business.

OVERVIEW

- **Length:** 3 hours
- **Format:** Virtual, hybrid or in-person

WHO CAN BE INVOLVED

- Leadership & management
- C-Suite (e.g., CEO, CFO)
- Board members

DISCOVER

- Insights into market dynamics, future trends and why ESG is gaining in importance
- Industry and peer ESG performance
- How to effectively integrate ESG into your business

SESSION OUTCOMES

- An **ESG trend diagnostic** highlighting the priority policies for your industry
- A barometer of your **ESG maturity** comprising seven key dimensions and 29. indicators
- An **ESG roadmap** that gives you a clear vision of your priorities and how to get the help you need for your future projects

1 : *Québec Survey on Sustainable Development, Eco-responsible Practices and Clean Technology* (in French only) –2021 (quebec.ca)

Drive sustainable growth, at every stage of your business

The ESG Discovery session is just the first step on the journey to becoming a sustainable enterprise. Through our work with small, medium, large and multinational businesses across all industries, we can help ensure you are able to build a strong foundation which endures as your organization scales and grows over time.

Our cross-functional subject matter experts combine deep sector experience and insights to help business leaders stay ahead of the curve, aligning their business and ESG strategies to future investor, customer, supplier, regulator, employee and community expectations.

01 ESG Discovery session

An interactive workshop to explore and hone in on your ESG challenges and opportunities

02 ESG Strategy

Rethinking your value proposition

Identify key topics material to your business

Determine your ESG ambition and maturity

Clarify ESG governance structure and set up incentives

Access tax incentives, credits, subsidies and grants to help fund your sustainability initiatives

03 ESG Integration

Develop ESG action plan and determine the feasibility of your ESG initiatives and set targets

Implement data and technology tools to support your ESG transformation

Assess your greenhouse gas (GHG) emissions across your value chain

M&A activity aligned to your growth ambitions

04 ESG Communication

Present your commitments and progress to stakeholders (internal and external) to increase customer loyalty, talent retention and access to capital

Develop your first sustainability report

Obtain assurance or certification of your ESG disclosures and claims.

Contact us

Book a free exploratory call with our team to asses your next steps.

Mallory Curtis
Partner, Accounting Advisory Services
+1 613 212 3725
mlcurtis@kpmg.ca

Tom Darling
Director, ESG
+1 905 523 2201
tdarling@kpmg.ca

Ramsha Ahmed
Manager, ESG
+1 905 523 6828
ramshaahmed@kpmg.ca

Appendix J: Generative AI

KPMG

Preparing your board for generative AI

Generative AI Board Briefing Paper

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January 2024

Your journey to Trusted AI

In the fast-changing world of Artificial Intelligence (AI), generative AI stands as a pivotal innovation that board members and Non-Executive Directors need to fully understand. It offers unprecedented opportunities but also raises complex business and ethical questions. The aim is not just to manage those challenges, but to elevate your organization's AI practices to achieve "Trusted AI."”

We define **Trusted AI** as the balanced integration of Artificial Intelligence that helps maximize benefits, minimize risks, and retain the trust of stakeholders by aligning with governance, ethics, and safety principles.

This briefing serves a dual purpose: first, to provide you with a focused overview of how generative AI affects your responsibilities, and second, to help set you on the path towards operationalizing Trusted AI.

Contents

Board checklist

A key responsibility of the board is establishing an effective risk management program that evolves with emerging technologies. It is vital for board members to understand how AI affects their organization, the potential benefits, and to actively oversee and mitigate related risks. To help, we created a checklist designed to guide you in your journey.

AI Knowledge and Inventory

- Gain a base-level understanding of what AI and generative AI means – its potential benefits and risks, and how the company might use it, and ensure knowledge cascades to the C-suite.
- Understand the inventory of material AI use cases currently in production or in development.

Strategic Alignment & Governance

- Understand and approve the AI strategy, ensuring its alignment with broader business strategies and protective policies.
- Set and approve the AI risk profile, risk tolerance, and guardrails using a Trusted AI framework.
- Identify a Trusted AI governance structure that reports to the board.
- Understand and oversee AI decisions recognizing their advantages and trade-offs.
- Ensure AI is a regular board agenda item.

Trusted AI & Regulation

- Understand current and pending AI-related regulations.
- Understand and oversee Trusted AI use, risk identification, and mitigation especially concerning accuracy, security, privacy, and bias.
- Understand high-risk AI activities and the actions to mitigate them.
- Define a position for AI in relation to organizational values and culture, recognizing the implications for both employee and customer experience.

Data Management & Integrity

- Understand the nature of data used in AI models, ensuring its quality, integrity, relevance, and unbiased nature.

Incident, Vendor & Risk Management

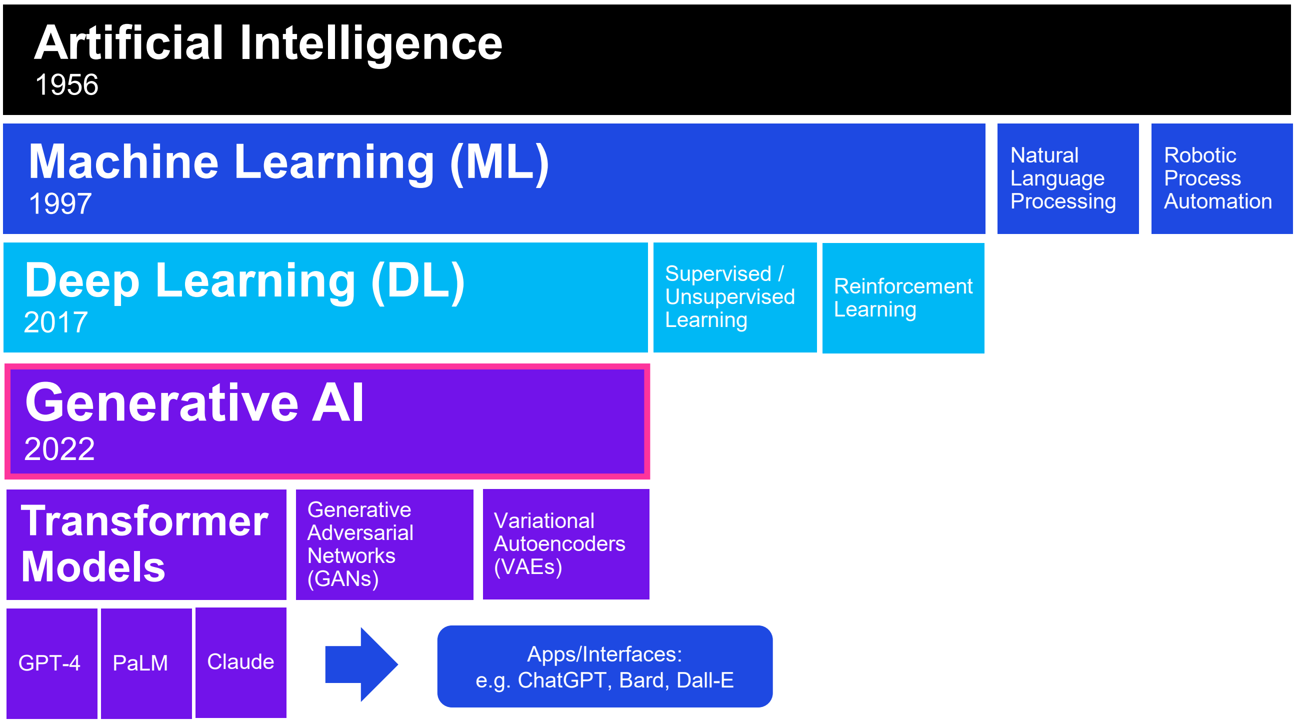
- Understand incident management procedures for AI and relevant business continuity measures.
- Understand vendor risk management for AI platforms.
- Ensure regular independent testing and assessment of AI systems.

KPMG

Putting Data and AI in context

AI is an umbrella term that encompasses different techniques. AI and its subset, generative AI, are transforming the competitive landscape across all sectors, offering significant advantages but also posing ethical and governance challenges.

Many boards are asking for high-level education (with third-parties, as necessary) on generative AI and its potential benefits and risks for their company. The session should include an overview of the risks posed by generative AI, which could mean additional reputational and legal risks that can undermine stakeholder trust.

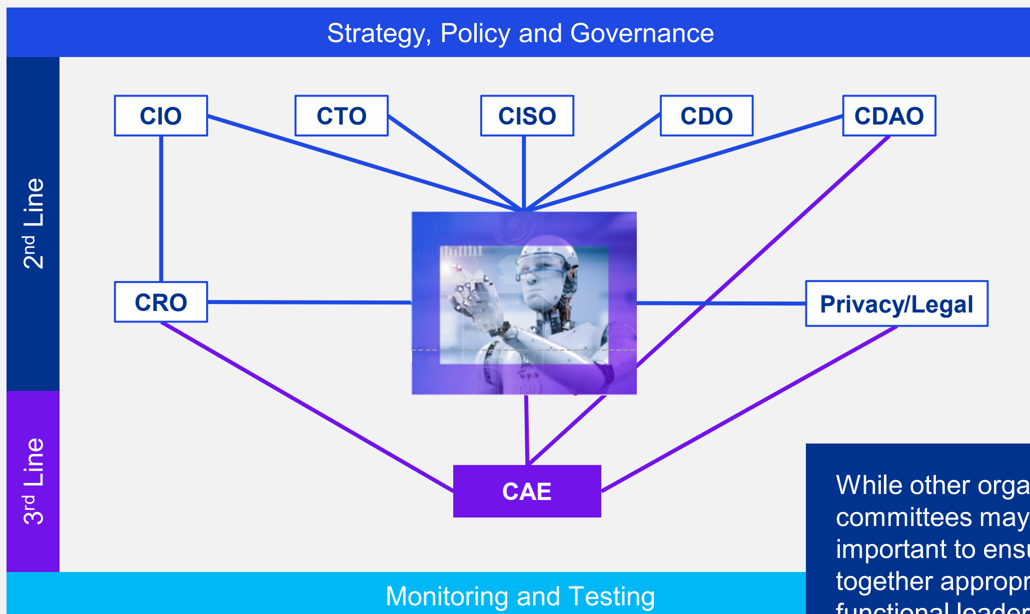


- AI systems can generate predictions, recommendations, or decisions that influence real or virtual environments. Generative AI, specifically, can create realistic and unique outputs like images, videos, software code, music, or text.
- AI is projected to generate nearly US$5 trillion in added value by 2024, facilitating productivity gains, driving new business models, and helping address complex global issues (Source: IDC).
- The rapid growth of generative AI has also heightened awareness of associated risks. To gain trust, AI systems must be developed and implemented carefully, aligning with legal frameworks, ethical norms and human rights.
- Given rapidly evolving legislation, the use of generative AI may pose compliance risks. Monitoring this must be a management priority.
- High-profile failures involving AI have eroded public trust. Some AI technologies have been accused of reinforcing unfair biases and stealing artists' intellectual property (IP).
- AI applications can produce inaccurate, unfair, or harmful outcomes, potentially undermining trust, and human rights like privacy. Data privacy is a major concern.
- A recent KPMG in Canada national survey indicates that the responsible use of AI is a key enabler in building trust and customer loyalty.

Establish your AI Governance committee

We recommend a dedicated AI Governance committee that reports to the board to supervise trustworthy, ethical AI practices in the organization. It should include key C-level executives or their representatives from across the business, including functional, legal & privacy, risk, technology, data, cyber, and sales & marketing.

The committee should seek external advice from experts in AI, ethics, and law and assist the C-Suite in making informed decisions on significant matters pertaining to AI.



While other organizational committees may exist, it is important to ensure you bring together appropriate cross-functional leadership and insight to effectively oversee AI.

Goals for the board

- Ensure AI applications align with ethical standards, safeguarding the organization from potential legal and reputational risks.
- Foster innovation, enabling the business to gain a competitive edge through trustworthy AI development.
- Establish a commitment to ethical and Trusted AI, enhancing trust and brand value among stakeholders, customers, and employees.

Key considerations:

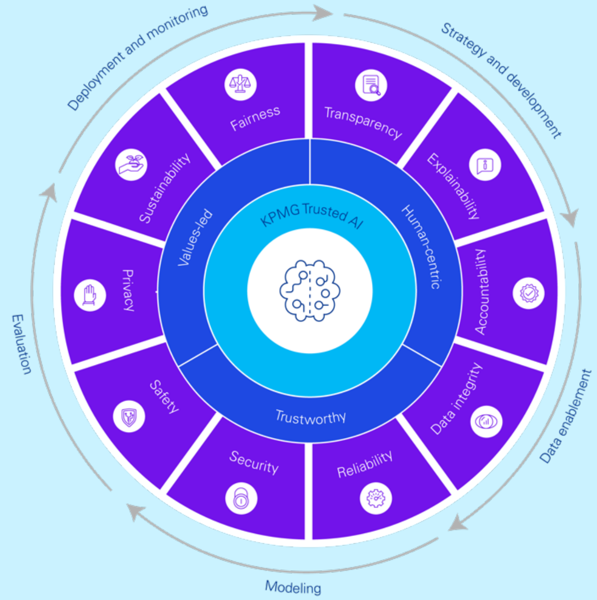
- It is important to develop a governance structure and policies for generative AI technology early on, and to review and update those policies as new AI tools and risks emerge.
- Define key roles and responsibilities in relation to oversight, design, development, and use of AI across the business (including products and services).
- Create AI guiding principles aligned with the Trusted AI framework, including on the ethical use of AI.
- Define and document the scope of the AI governance program, including which types of models, algorithms, and systems are in and out of scope, and why, and building a risk scale for in-scope use cases).
- Monitor the process to escalate and assess high-risk AI use cases (including the intake and approval process).

Assess your AI readiness

AI readiness in an organization means being fully set up and prepared – across strategic alignment, infrastructure, technology, workforce skills, and ethical considerations – to use AI effectively and responsibly.

Leading organizations strive to understand and proactively manage the risk and ethical issues related to AI. Any assessment framework used should evolve with current and upcoming frameworks and regulations, including NIST AI Risk Management, ISO 42001, AIDA, EU AI Act, Canada's Guide on the use of Generative AI, etc.

Image on the right: **KPMG's Trusted AI framework.**



Among the key questions to consider during this process are:

- Is there a clear decision-making process for how and when a generative AI system or model – including a third-party model – should be developed and deployed?
- How is management mitigating these risks and what generative AI risk management framework is used?
- How is the company monitoring federal, provincial, and global legislative and regulatory proposals to govern the use of generative AI?
- Does the organization have the necessary generative AI-related talent and resources?

Goals for the board:

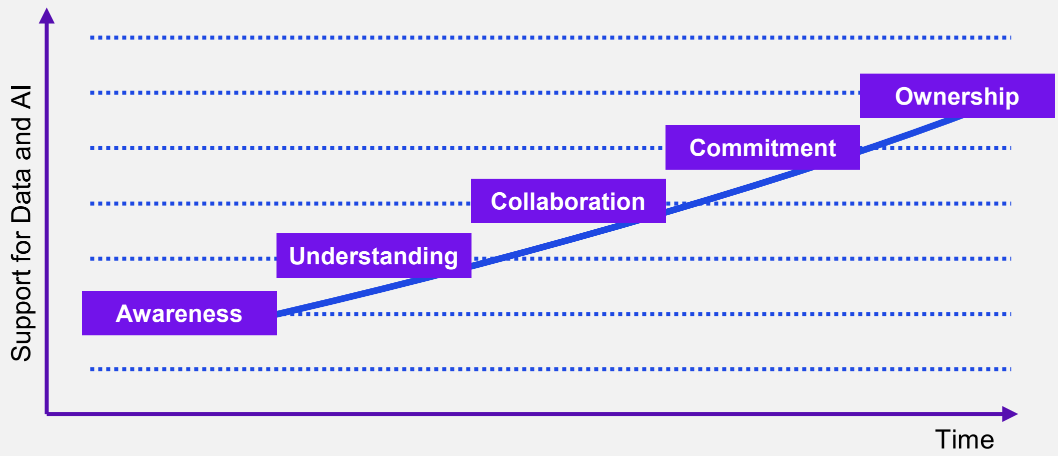
- Receive quantified insights into your organization's AI readiness, benchmarked against national, international best practices, and peers, leveraging a robust Trusted AI framework.
- Lay the groundwork for informed discussions among key decision makers about your organization's AI and data challenges, priorities, and roadmap.
- Gauge consensus and understanding across relevant stakeholder groups, which can inform initiatives to improve awareness and promote a consistent approach within your organization.

Key considerations:

- Foster top-down leadership by establishing a unified understanding across the organization, and about where the AI readiness assessment fits in your company's data and AI ethics journey.
- Prioritize outcomes by adopting an outcome-focused approach to ensure the insights from the assessment translate into actions. This will inform the roadmap and development of your data and AI ethics strategy, principles, and processes.
- Maintain clear communication by ensuring respondents understand the benefits, desired outcomes, and results of the assessment, and how these impact them and the organization. This fosters a sense of collaboration and inclusion.

Build employee engagement

Strong governance and AI readiness create a structured environment where AI can thrive, but it's the commitment and understanding from your employees that bring these technologies to life in a sustainable, trustworthy way. Build a shared focus around AI by engaging your employees early in your journey.



Awareness

Stakeholders have a broad awareness and familiarity of Data and AI concepts.

Understanding

Stakeholders understand the key principles, terms, use cases, and changes Data and AI introduces to them.

Collaboration

Relevant stakeholder groups collaborate on a periodic basis through an established governance forum to drive change programs pertaining to Trusted AI.

Commitment

Stakeholder groups are committed to incorporating trustworthy practices into the way that data is collected and used and Trusted AI frameworks and principles are rolled out.

Ownership

Stakeholders at all levels within the organization demonstrate ownership and accountability through their adherence Trusted AI frameworks and policies.

Goals for the board:

- Build consensus and acceptance on the organization's approach to Data and AI. This requires a multi-disciplinary and coordinated approach, ensuring buy-in across the organization.
- Establish trust among employees. Trust erosion often occurs due to lack of visibility and transparency.
- Keep workforce updated with rapidly changing technological advances. With the growth of AI and Data use, employees are expected to have basic knowledge of the topic.

Key considerations:

- Develop meaningful engagement within your organization through an incremental and targeted approach, tailored to your specific needs. Strategies can include:
  - Data and AI insight sessions that are designed to familiarize board members with key concepts, benefits, and risks.
  - Data and AI learning programs that offer employees training to deepen their understanding of data and AI.
  - Data and AI activation programs that involve identifying internal advocates to lead efforts that support the trustworthy and sustainable adoption of AI.

Define ethical guardrails and governance for your organization

To use AI ethically, companies must understand its current uses and effects on society. This insight, coupled with knowledge of emerging regulation and public perception, aids in establishing guiding principles for AI and data analytics usage.

Centre this process around customer needs and perspectives. Consult key stakeholders and, if possible, consumers, and those affected by the AI model.

Trusted AI is designed meet the following expectations:

Trustworthy

AI systems are fit-for-purpose and perform reliably to produce accurate output as intended. Data acquisition, governance, and usage uphold ethical standards and comply with applicable privacy and data regulations.

Human-centric

AI systems are designed to achieve positive outcomes for end-users and other stakeholders, and at a minimum, do not cause harm or detract from human well-being.

Values-led

AI systems adhere to commonly accepted ethical principles and values (e.g. fairness, transparency of data collected and how it is used), uphold human rights (e.g. privacy), and comply with applicable laws and regulations.

Goals for the board:

- Proactively identify and manage potential ethical, legal, and privacy risks associated with AI applications, paying close attention to how AI could disproportionally affect members of equity-deserving groups.
- Showcase a commitment to ethical AI usage through self-regulation and transparency.
- Embrace diversity with a board that helps make well-rounded, unbiased decisions based on a deeper understanding of AI impacts.

Key considerations:

- Establish a set of standards the organization commits to – an AI ethics codes of conduct – relevant to employees, customers, and communities.
- Put in place regular reviews of the ethics of AI systems by an independent body including representation of communities and stakeholders impacted by the AI systems.
- Adhere to a third-party certification system that independently confirms a minimum level of transparency, accountability and fairness to the broader public.
- Implement a Regulatory Insights Platform that can help track and understand the impact of new and existing regulations, laws, and guidance about AI.

Operationalizing Trusted AI

Implementing Trusted AI throughout your operations is complex due to the diversity of AI applications and contexts they involve.

Navigating the complex landscape of Data & AI demands committed engagement with the broader impacts of technology on society. The proposed approaches in this paper empower organizations to step forward as leaders of responsible innovation, fostering trust and paving the way for AI that serves the greater good.

Generative AI is new, but there are tried and tested frameworks you can use. The key to preparation is getting your whole team started – now.

Three steps to consider :

An ongoing assessment and Trusted AI program can ensure you meet specific standards of ethics, compliance, quality and security.

Through on-site assessments, using Trusted AI tools for continuous monitoring, and a peer review approach, you can be confident that AI models are responsibly developed and deployed. Such a program fosters trust and transparency.

Support the development of leaders who can bridge the gap between business objectives and data needs.

Data fuels Artificial Intelligence. It is critical to understand the nature of data used in AI models, ensuring its quality, privacy, relevance, and unbiased nature. As generative AI technology breakthroughs happen at a faster and faster rate, how you capture, leverage, and protect your company data will become even more critical.

Adopt a balanced and proportional approach to ethical risk management and human oversight.

Given the context-sensitive nature of ethical considerations in data analytics and AI, it's essential to monitor and manage ethical risks dynamically and consistently.

Contacts

Zoe Willis
Partner, Strategy & Digital, National Digital & Data Leader
zoemwillis@kpmg.ca

Kareem Sadek
Partner, Technology Risk Consulting, Trusted AI Co-Leader
ksadek@kpmg.ca

Ven Adamov
Partner, Governance, Risk & Compliance Services, Trusted AI Co-Leader
vadamov@kpmg.ca

David Marotte
Quebec Leader, Data & Artificial Intelligence
gavinlubbe@kpmg.ca

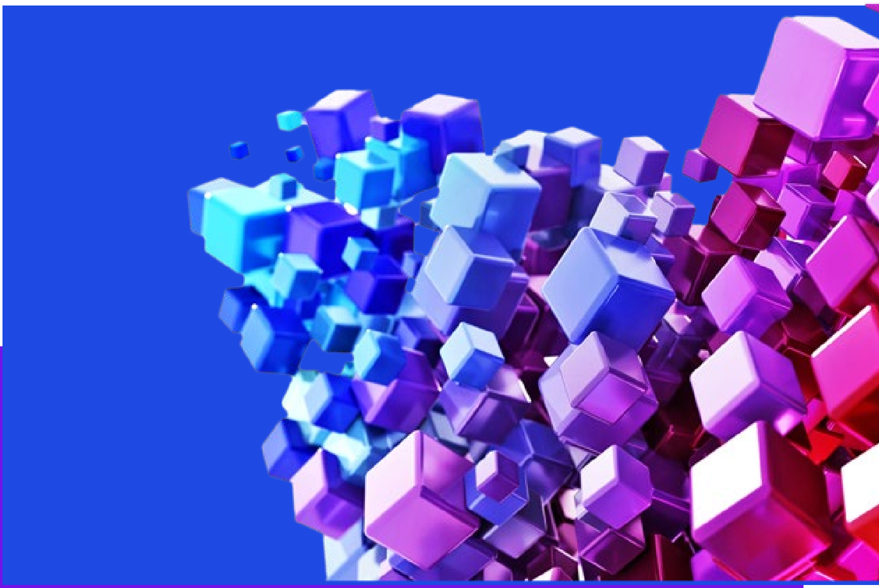
Gavin Lubbe
Partner, Customer & Operations, GTA Lead, Lighthouse
gavinlubbe@kpmg.ca

Marc Low
Director of Innovation, Growth and Emerging Tech, KPMG Ignition
marclow@kpmg.ca

JQ Lien
Partner, Technology, Strategy & Transformation
jqlien@kpmg.ca

Bryan Matthews
Partner, Deal Advisory
bgmatthews@kpmg.ca

About KPMG's Board Leadership Centre



Supporting board members with value-added insights and trusted guidance.

The KPMG in Canada Board Leadership Centre (BLC) engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting, and more.

BLC provides an analysis of the big issues reshaping our environment today for public and private-company governance and shares diverse perspectives from KPMG in Canada's subject matter experts to help navigate the boardroom agenda.

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